

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	Harbor Springs Area Fire Authority	County	EMMET	Type	AUTHORITY	MuniCode	247515
Opinion Date-Use Calendar	May 23, 2008	Audit Submitted-Use Calendar	June 26, 2008	Fiscal Year-Use Drop List	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$634,333"/>
General Fund Expenditure:	<input type="text" value="\$161,052"/>
Major Fund Deficit Amount:	<input type="text" value="\$0.00"/>

General Fund Balance:	<input type="text" value="\$1,129,872"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$0.00"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	James	Last Name	Cusenza	Ten Digit License Number	1101012888		
CPA Street Address	923 Spring Street	City	Petoskey	State	MI	Zip Code	49770
CPA Firm Name	Hill, Schroderus & Co.	Unit's Street Address	160 Zoll Street	City	Harbor Springs	LU Zip	49740

**FINANCIAL REPORT
HARBOR SPRINGS AREA FIRE AUTHORITY
December 31, 2007**

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Hill • Schroderus & Co., LLP
Certified Public Accountants & Consultants

May 23, 2008

Independent Auditors' Report

Board of Directors
Harbor Springs Area Fire Authority
Harbor Springs, Michigan

We have audited the accompanying financial statements of the Harbor Springs Area Fire Authority as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Fire Authority as of December 31, 2007 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Harbor Springs Area Fire Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Net Assets
December 31, 2007

Assets

Current assets

Cash	\$ 25,000
Investments	77,007
Accrued interest receivable	635
Due from other governmental units	<u>110,000</u>
Total current assets	<u>212,642</u>

Noncurrent Assets

Capital assets	1,582,850
Less: accumulated depreciation	<u>(548,225)</u>
Total noncurrent assets	<u>1,034,625</u>
Total assets	<u><u>\$ 1,247,267</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 2,386
Due to other governmental units	<u>115,009</u>
Total current liabilities	<u>117,395</u>

Net assets

Invested in capital assets	1,034,625
Unrestricted	<u>95,247</u>
Total net assets	<u>1,129,872</u>
Total liabilities and net assets	<u><u>\$ 1,247,267</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended December 31, 2007

Operating revenue	
Charges for services	\$ 110,000
	<u> </u>
Operating expenses	
Operation and maintenance	107,215
Depreciation	53,837
	<u> </u>
Total operating expenses	161,052
	<u> </u>
Operating income (loss)	(51,052)
	<u> </u>
Nonoperating revenues	
Interest revenues	18,841
Grants and contributions	129,500
	<u> </u>
Total nonoperating revenues	148,341
	<u> </u>
Net loss before capital grants and contributions	97,289
	<u> </u>
Capital grants and contributions	375,992
	<u> </u>
Change in net assets	473,281
	<u> </u>
Total net assets - beginning	656,591
	<u> </u>
Total net assets - ending	\$ 1,129,872
	<u> </u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Cash Flows
Year Ended December 31, 2007

Cash flows from operating activities

Cash receipts from customers	\$ 110,000
Cash payments to suppliers for goods and services	<u>(111,505)</u>
Net cash provided (used) by operating activities	<u>(1,505)</u>

Cash flows from non-capital financing activities

Operating grants received	<u>129,500</u>
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Cash flows from capital and related financing activities

Contributed capital	375,992
Purchase of capital assets	<u>(859,578)</u>
Net cash provided (used) by capital and related financial activities	<u>(483,586)</u>

Cash flows from investing activities

Purchase of investments	(77,007)
Interest	<u>18,841</u>
Net cash provided (used) by investing activities	<u>(58,166)</u>

Net increase (decrease) in cash	(413,757)
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Cash, beginning	<u>438,757</u>
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Cash, ending	<u><u>\$ 25,000</u></u>
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Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	<u>\$ (51,052)</u>
Adjustments to net cash provided by operating activities:	
Depreciation	53,837
Change in assets and liabilities:	
Increase (decrease) in accounts payable	2,386
(Increase) decrease in prepaid expenses	10,000
(Increase) decrease in accrued expense	(635)
(increase) decrease due from other governmental units	-
Increase (decrease) due to other governmental units	<u>(16,041)</u>
Total adjustments	<u>49,547</u>
Net cash provided (used) by operations	<u><u>\$ (1,505)</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1: THE REPORTING ENTITY

The Harbor Springs Area Fire Authority (the "Authority") was created as a corporate instrumentality in 1992 under provisions of Act 57, Michigan Public Acts of 1988. The local governments comprising the Authority include the City of Harbor Springs, Little Traverse, West Traverse and Pleasantview Townships. The Authority provides fire protection, equipment and services to these municipalities. The Authority is not included in any other governmental "reporting entity" as defined by GASB 14, since none of these governmental units appoint a majority of the Authority's board, the board members have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting – The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing fire protection services to member communities. All other revenues and expenses are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

Capital Assets – The building, equipment and vehicles are recorded at cost. The vehicles are being depreciated under the straight-line method over their estimated useful life of 15 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.

The Authority has not formally adopted a capitalization policy. Assets with a useful life of over 1 year continue to be capitalized. Provisions for depreciation aggregating \$53,837 in 2007 have been recorded in the statement of Revenue, Expenses, and Changes in Net Assets.

Capital Grants and Contributions – Capital grants awarded the Authority and contributions from member units to defray capital acquisition costs are recorded as capital grants and contributions.

Repair and Maintenance – Repair and maintenance expenses are charges against operations when incurred.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Statement Estimates – The Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 3: CASH AND INVESTMENTS

State statutes and the Fire Authority's investment policy authorize the Fire Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Fire Authority is allowed to invest in U. S. Treasury or Agency obligations, U. S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Fire Authority's deposits are in accordance with statutory authority.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At year-end, the carrying amount and the bank balance of the Authority's deposits was \$25,000, of which \$25,000 was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Credit Risk – investments. At year-end the Authority's investment in Michigan Governmental Money Market Fund of \$77,007 was rated AAA by Moody's Investors Services.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: CAPITAL ASSETS

A summary of Capital Assets at December 31, 2007 follows:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Assets not being depreciated:				
Construction in progress	\$ 5,692	\$ -	\$ 5,692	\$ -
Capital assets being depreciated:				
Buildings and improvements	29,946	301,999	-	331,945
Equipment	687,634	563,271	-	1,250,905
Subtotal	717,580	865,270	-	1,582,850
Less accumulated depreciation:				
Buildings and improvements	7,654	2,792	-	10,446
Equipment	486,734	51,045	-	537,779
Subtotal	494,388	53,837	-	548,225
Net capital assets being depreciated	223,192	811,433	-	1,034,625
Net capital assets	\$ 228,884	\$ 811,433	\$ 5,692	\$ 1,034,625

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Authority could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.